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SUBJECT: SAO PAULO KEY ECONOMIC DEVELOPMENTS, DECEMBER 1-15, 2009

1. (U) SUMMARY: This cable covers the period of December 1-15, 2009. It highlights economic, energy and science and technology developments in the Sao Paulo Consular District not covered by broader reporting. Some significant developments during the period were: Brazil's bullet train project, results of Brazil's first wind power auction, reactions to next year's economic stimulus measures, and the economic impact of the flooding in Sao Paulo. END SUMMARY.

Bullet Train Unlikely by the 2014 World Cup

2. (U) Sao Paulo leaders announced December 8 that the construction of a bullet train from Campinas to Sao Paulo and on to Rio de Janeiro will not be completed by the time of the World Cup in 2014. The project is estimated to cost around \$20 billion dollars, of which about \$12 billion, or 60 percent, is expected to be funded by Brazil's National Development Bank (BNDES) and 30 percent, or about \$6 billion, by the Brazilian government. The GOB intends to create a new government-owned company, which will research and control the technology associated with the bullet train. The GOB estimates that about 7 million passengers will travel between Sao Paulo and Rio via the bullet train annually once complete. Travel time between Sao Paulo and Rio will fall from approximately five hours to two. The project is set to start in the first quarter of next year, and is expected to be completed by the end of 2015--too late for the World Cup but ready in time for the Rio Olympics in 2016.

2010 Economic Stimulus Measures Generate Divided Reactions

3. (SBU) Following the December 9 announcement by Finance Minister

Mantega of additional fiscal stimulus measures to bolster the Brazilian economy, private sector representatives in Sao Paulo have responded with mixed sentiments. The package, likely to amount to more than \$118 billion in 2010, includes a new line of credit to BNDES worth \$47 billion to finance investments in infrastructure, capital goods and exports, among other categories. Corporate sector contacts have reacted enthusiastically, particularly following the announcement December 10 of slower than expected economic growth figures for the third quarter of 2009. Paulo Godoy, president of Abdib (Brazilian Association of Infrastructure), for instance, highlighted that the measures support the demand for long-term loans. However, many analysts, such as Alexandre Schwartzman, chief economist at Santander, expressed growing concern about the impact of successive public stimulus packages on the fiscal accounts and monetary policy.

Economic Impact of the Flooding in Sao Paulo

14. (U) Floods in the city of Sao Paulo December 8-9 generated economic losses and brought traffic on key cross-city highways to a standstill as the adjacent Tiete and Pinheiros rivers broke their

banks. The weather service reported it was the heaviest 24-hour period of rainfall in Sao Paulo this year, dumping half of its total average December precipitation in one night. The flooding generated significant economic losses, primarily to small and medium size businesses. Ceagesp, a warehouse company, lost approximately \$8.8 million in inventory while small establishments in the municipal market reported a drop in sales of 60 percent following the rains and Sao Paulo's commercial association reported a 12 percent decline in commercial transactions in the city. Sao Paulo Mayor Gilberto Kassab publicly denied repeated accusations that lack of investment in water canalization was to blame and has ordered a review of city emergency services to improve the response to future flooding.

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